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National Federation of Independent Business • 115 West Allegan – Suite 310 • Lansing, MI 48933 • (517) 485-3409 • Fax (517) 485-2155

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Contact: Charlie Owens (517) 282-2052
Jason Brewer (202) 406-4435

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NFIB is the nation's leading small business association, with offices in Washington, D.C. and all 50 state capitals. Founded in 1943 as a nonprofit, nonpartisan organization, NFIB gives small and independent business owners a voice in shaping the public policy issues that affect their business. More information about NFIB is available online at www.NFIB.com/newsrooom.

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National Federation of Independent Business • 1201 F Street, N.W., Suite 200 • Washington, DC 20004 • 202-554-9000 • Fax 202-554-0496

Health Reform Bills Harm Small Business

CONTACT: Stephanie Cathcart, 202-314-2056 or stephanie.cathcart@nfib.org

WASHINGTON, D.C., Jan. 12, 2010 — *Susan Eckerly, senior vice president of the National Federation of Independent Business, the nation's leading small business association, issued the following statement on the merging of the two healthcare bills passed out of the U.S. House and Senate:*

"Like a freight train without brakes, Congress is determined to pass health reform, even at the expense of our nation's job creators: small business. As the Senate and House come together at this critical time to iron out the differences between their two healthcare bills, we remind them of the harm that will be done to small businesses, especially if certain provisions aren't stricken from final legislation. Specifically, several provisions must be removed to help mitigate the damage to small business including:

- **Small business health insurance tax** – There is a $60 billion health insurance tax on the fully-insured market, where 87 percent of small business owners purchase health insurance. Cleverly messaged as a tax on insurers, small businesses will actually bear the full weight of this fee.
- **Employer mandate** – While we have strong concerns that the employer mandate in the Senate-passed bill will especially harm low-wage and entry-level workers, the House's version of this onerous, job-killing mandate is even worse. A pay-or-play approach with a punitive payroll tax is exactly the opposite of what will help small businesses maintain and grow jobs.
- **Construction mandate** – With job loss at historically high levels (18 percent in construction alone), this mandate singling out a struggling industry is both out-of-touch and a blatant political payoff to union pressures.

"Despite strong bipartisan support, it is especially disappointing that a key amendment was not fully included in the final Senate-passed bill. The optional free-choice voucher included in the Senate's bill is limited to just a small segment of individuals who meet specific affordability criteria. If Congress is serious about trying to give small employers a voluntary way to provide a financial contribution to their employees' health insurance, then the voucher should be expanded and made available to the entire small-group market.

"For reform that was supposed to be all about small business and controlling costs, it has turned out to be more about late-night dealmakers and continued cost increases. NFIB continues to urge Congress to ditch the lip service and pursue real reform – reform that lowers insurance costs and won't increase the cost of doing business for small employers. If they proceed on the course they are on, then health reform will fail small business."

Visit NFIB.com/healthcare under "Work on the Hill" to read the full letter sent to Congress.

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Proposed Federal Health Care Reform

Change You Cannot Afford

A Timeline & Perspective

- The House and Senate Democratic Leadership are currently in the midst of negotiating a final compromise health care reform bill.
- The following timeline and analysis only reflects the contents of the Senate-passed health care reform bill and is subject to change over the course of negotiations between the House and Senate.
- However, the main components of the final bill are expected to closely resemble the Senate-passed bill.

Health Insurance Market Reforms, Mandates and Tax Credits

2010

Insurance plans prohibited from imposing lifetime benefit limits and restricted annual limits.

Insurance plans required to carry dependents up to the age of 26.

Insurance plans required to cover preventive services without cost sharing.

Insurance plans prohibited from denying coverage to individuals under the age of 19 based on pre-existing conditions.

Temporary high risk pool established for individuals (older than 19) who are denied coverage based on pre-existing conditions.

Insurance plans required to report proportion of premium dollar spent on non-medical care.

Insurance plans prohibited from rescinding coverage except in cases of fraud.

2010

Temporary reinsurance program created for employers providing coverage to retirees over 55 who are not eligible for Medicare.

States begin reviewing premium trends and companies must justify increases. Plans may be potentially blocked from Exchange for unwarranted increases.

First Phase of Small Business Tax Credit: Small businesses with less than 25 employees and average annual wages of less than $50,000 are eligible for tax credits of up to 35% of the employer's contribution toward the employee's health insurance premium. Employers must subsidize at least 50% of their employees' premiums in order to be eligible for the tax credit. Credit only available through 2013.

2011

2011Insurance plans must comply with the new medical loss ratios (MLR): 80% for individual and small group plans and 85% for large group plans. Companies required to provide rebates to consumers if they fail to comply with the MLRs.

"CLASS Act": A national long term care assistance/disability insurance plan is established. The benefit is tied to one's inability to perform two or three Activities of Daily Living (ADLs) and the benefit amount is varied based on the "scale of functional ability" with a $50-75/day cash benefit. All working adults will be automatically enrolled in the program unless they choose to opt-out.

2014

State-based health insurance exchanges are implemented and open to individuals and small businesses (2-100 employees). Exchanges will include four tiers of private plans, OPM multi-state plans and co-op plans.

Premium credits available via exchanges for individuals/families with incomes up to 400% of federal poverty level who do not receive employer based coverage or whose employer-based premiums exceed 9.8% of their income.

Insurance plans required to abide by guarantee issue, minimum benefit standards, revised rate bands for individual and small group market (2-100 employees).

Individuals required to purchase health insurance or face a tax penalty of up to \$750/year or \$2,250 per family.

Employers with more than 50 employees who do not offer their employees health insurance will be subject to a \$750 tax penalty/per full-time employee (per year) if one of their employees is eligible for a tax credit subsidy.

2014

Final Phase of Small Business Tax Credit: Small businesses with less than 25 employees and average annual wages of less than $50,000 are eligible for tax credits of up to 50% of the employer's contribution toward the employee's health insurance premium. Employers must subsidize at least 50% of their employees' premiums in order to be eligible for the tax credit. Credit only available for two years.

Medicaid expanded to 133% of federal poverty level.

Short Term Implications for the Health Insurance Industry (2010-2014)

New Insurance Plan Requirements and Taxes

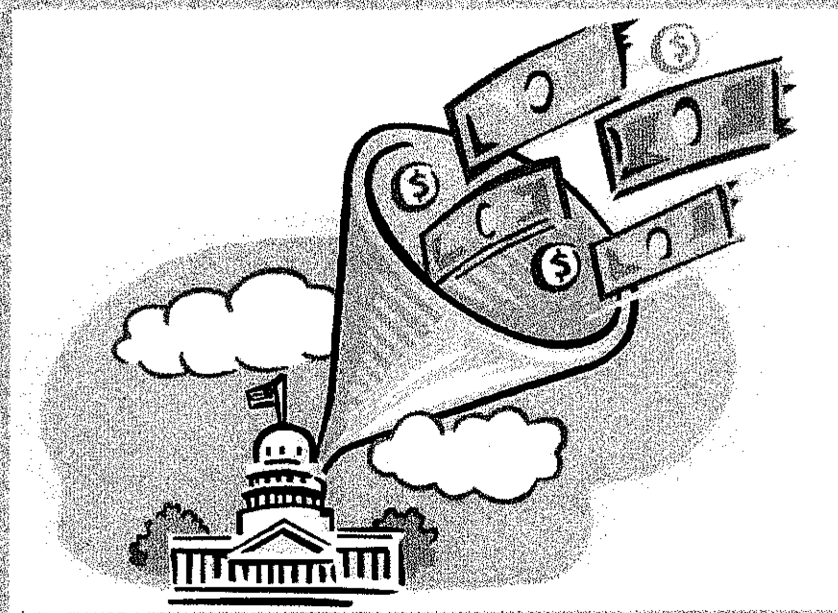
+

Medical Loss Ratio (MLR)Squeeze

=

Thin Margins for Insurance Industry

Taxes and Revenue Raisers



2010

$2.3 billion annual tax on pharmaceutical industry.

Executive and employee compensation deductibility limited to $500,000 for health insurance providers.

10% tax on indoor tanning services.

2011

$2 billion annual tax on health insurance companies. The tax will increase each year and max out at an annual rate of $10 billion in 2017.

Over-the -counter drugs not prescribed by a doctor may not be reimbursed through an FSA or HRA nor on a tax free basis through an Archer MSA or HSA.

Tax increase on distributions for non-qualified medical expenses from and HSA (from 10% to 20%) or an Archer MSA (15% to 20%).

Contributions to FSAs limited to $2,500 per year.

$2 billion annual tax on medical device industry. Annual tax is increased to $3 billion in 2017.

2013

Medicare (Part A –hospital insurance) tax rate on wages is increased from 1.45% to 2.35% for individuals earning above $200,000 and couples above $250,000.

"Cadillac Tax": A 40% excise tax is imposed on insurance companies who sell an employer-sponsored health insurance plan that has an aggregate value of $8,500/individuals and $23,000/families. The excise tax is imposed on the amount above the stated threshold.

$2.6 billion tax on insured and self insured plans to fund comparative effectiveness research.

Impact on Employers

Employers with 50-plus full-time (30 hours per week or more) employees are subject to the following:

- If an employer does not offer health insurance and has at least one employee who qualifies for a tax credit, the employer is subject to an annual fineof $750 for each full-time employee.
- If an employer does offer health insurance coverage but has an employee who goes to an exchange (because the employee's share of the premium exceeds 9.8% of their annual income) or if the employer fails to offer the minimum health insurance coverage, the employer is subject to an annual fine of $3,000 per employee going to an exchange (maximum penalty is $750 for each full-time employee in your total workforce).
- If an employer does offer health insurance coverage, the employer is required to offer a voucher to employees with incomes less than 400% FPL and whose share of the premium exceeds 8% but is less than 9.8% of their annual income who decide to enroll on a plan in an exchange. The voucher is equal to what the employer would have paid for the employee's health insurance coverage. (CBO: 1-2 million employees would jump from employer coverage to the exchange.)
- If an employer imposes a waiting period before their employees can enroll in coverage, the employer is subject to a one-time fine of $400 for a full time employee for a 30-60 day waiting period and $600 for a 60-90 day waiting period.

Impact on Employers

- Construction companies with five or more workers and a payroll that exceeds $250,000 would have to provide health insurance to their employees or be subject to the excise tax of $750 per employee.

- Employers with 200-plus full-time employees must automatically enrol their employees into health insurance plans.